

February 20, 2014  
10:00 A.M.  
Newport, Oregon

The Retirement Board of the City of Newport met on the above date in the Conference Room A of the Newport City Hall.

Retirement Trustee present were Tim Johnson, Mike Schulz, John Baker, Rick Wright and Rebecca Cohen

Staff present were Linda Brown, Spencer Nebel, and Harmonie Morris.

Others in attendance were Chris Magana, and Beverly Reichard.

### **CALL TO ORDER**

The meeting was called to order at 10:00 A.M.

### **INTRODUCTIONS**

Introductions were made around the table, starting with Rick Wright and ending with Spencer Nebel.

### **APPROVAL OF MINUTES**

Prior meeting minutes was the first topic of discussion. A few errors were pointed out, such as adding Rebecca Cohen to the last minutes and the misspelling of Mike Schulz's last name. A motion was made to approve the minutes of the last quarter meeting. The motion carried unanimously in a voice vote.

### **MARKET REPORT**

Chris Magana opened with the market report for the last quarter. The year of 2013 was good for stocks. January, however, took a slight hit. Bonds were also a point that was not as good for the year of 2013. However, overall, the results for the year were good for the City.

Chris directed everyone to the first tab, which was the breakdown of the portfolio composition. Spencer asked the question about what was contained in the benchmark for comparison. Chris mentioned that the benchmark contains activities that are within the categories and that are active. For instance, April through July lost some, but were still active. This is something that is aggregated and used as the benchmark. Moving on, Chris again explained that the bond market has been suffering. The bonds have been having high risks with lower yields. For this reason, bond expectations should be low, but someone can still expect to earn from them in the long-term. With experience with this

subject, Chris mentioned the bond market from the 1980s until the present and the interest rates that have changed with them. Bond rates have decreased significantly, and could either stay the same or increase. His point was that using outdated information is not a safe tactic because the past performances are never a guarantee.

After speaking on bonds for a time, Chris turned his attention to the stocks. Again, they did extremely well no matter which type was in question. For some, this raises questions about the future. An example was the month of January, when they took a down turn. Chris then explained that some fluctuation is a good thing in this market. He explained that without a certain level of volatility, eventual volatility can be expected. After a market is good for so long, it can lead to overvaluation. Slight overvaluation is fine, but too much is not a good thing. He used examples such as the real estate market and gold market. His advice was to keep going with the stocks the City has currently. They are monitoring things closely and if there is cause for concern, they will reassess the situation. Tim Johnson asked the question of how they are monitoring these stocks, whether they are using a price per earnings picture. Chris responded that they use this as well as other such as price per sale and price per balance. Chris assured that they are watching for certain flags, especially since there has been speculation about the past year's results.

Chris then moved on to the changes that were made, specifically closing the energy market on January 14<sup>th</sup>. Chris explained that the energy segment did alright, but with other things going on in the industry they decided to close. They also reported that they have been looking for managers in the international market. They currently have 5 in the area that they like, and hope to use 2 going forward. They are currently making agreements on certain things, but the performance of certain managers has been very good. Tim asked where the funds from the energy market went within the portfolio. Chris explained that it went back into the whole portfolio. He also explained that they have a process that they use to ensure the best market is being used. When one does not work, it goes back into the core fund. This was the case for the energy.

Moving on to tab 2, which was the portfolio composition of the liquidity portion. Spencer was not too familiar with this segment, as he is still new to the City. Therefore, Time and Spencer talked about the different aspects of this fund. Tim talked about how this fund is more aggressive in order to keep enough in the fund for probable retirees. The timeline for this fund is 2-3 years. Spencer was concerned because it looked like money was not being replenished very much. Tim explained that city contribution of funds help to keep the liquidity high. He also mentioned that they look at liquidity at each meeting in order to prepare for possible payments. Chris also gave an overview of this fund. He further explained the position the fund is in with stocks verses fixed income. The balance that the City and the trustees have proposed is 50-70% of stocks. Chris also mentioned that it is good to see a 60% stock and 40% fixed income portfolio. The City is in a good position at approximately these figures. He also mentioned that they use the same managers for

these instead of multiple. Also, the topic was made that this has no proprietary funds included. Rebecca Cohen asked why there was a color change on page 3 with the pie graphs. Chris explained that this was a change due to systems. The question was also posed as to the common stock and where it went in the pie graph in question. Chris explained that the common stock used to be the energy component of the fund, and that was simply moved back to equity funds.

After this discussion was complete, Chris moved onto tab 3, which was the overview of cash and equivalents for payouts. It was explained that all payments from the City into the fund go here. From this account it goes into other accounts as the managers see fit. Beverly Reichard assured that she is always aware of this balance to make sure it is fully funded in order to meet withdraw demands. The group did notice that the City is behind on quarterly payments. Chris mentioned that on pages 6 and 7 you can see the cash flows that go in and out of this account. Linda mentioned that she is currently making semiannual payments to this, and is also going to make a payment to this account directly.

Chris continued on to tab 4, which contains long-term and more aggressive plans. This account is made mostly of stocks. He mentioned that this account did very well for the year. He also mentioned to take certain figures into consideration with a long-term view in mid, considering the fund began right before the recent recession.

After short discussion, Chris moved on to tab 5, which consisted of the benchmark account. This account is basically made up of cash and corporate bonds. He explained that the results from this account was good, but realistic views are staying in place. Bonds are carrying lower rates. He also explained that the current stage is a tough period for bondholders. He also urged to hold onto those bonds and not to get rid of them in haste. He talked about the possible gains and losses that could come from selling bonds at a bad time. He explained that at this point selling the bonds would overall lose money.

Moving on, Chris mentioned that tab 6 was simply a breakdown of the holdings and the current values of those holdings. That concluded the report from Chris.

Rebecca asked if Chris was the author of the Bottom Line located in the back of the report. It was actually Rick, who was replaced by Chris and was at the last meeting. Chris talked briefly about how he likes to write these reports and what he likes to include. His main point of view is to establish definitions for industry jargon and presenting good information about the current situation of the market performance.

Another question was posed by Mike Schulz as to whether or not the United States is acting similarly like Japan and if we are in the same position. Chris plainly mentioned that we are not Japan. He talked about how some people are very excited about the turn of the market, but he explained that they are more concerned with the "what ifs" that are related. He commented that Japan's market is still down 40 to 50% compared to what it

was in the 1980s. Japan's market was overinflated, and is still suffering from its dive. After his explanation, he also mentioned that they are not active traders looking to make a short term profit with Japan. Instead, they are in for the long run with investments.

## ACTUARIAL

The meeting then turned to the actuarial report given out by Tim Johnson. There was question about the method used to smooth out returns over 5 years. It was pointed out that on page 13, there was an explanation of the valuation method used in this report. There was also a question toward Linda Brown about the timing and delay of this report being completed. Linda mentioned that while she usually gets information in July, this year she got it done in August. Along with that, the people that manage the actuarial changed and there has been much confusion. It was discussed that the City appointed this company and they have likely been using them for years. While the City is hoping this year is better as far as timing, there is also the possibility of getting a new actuary.

Another concern with this report was the number of participants that are in the account. At some point this account was frozen, however it seemed as though some new employees were added after the account was closed. Linda talked about the dates for certain employees that could have been added after the closing date, which was March of 2012 for nonunion employees and July of 2012 for NEA employees. In short, some are acceptable to be included and some are not supposed to be on there. On page 16 it was seen that the costs increased due to adding these employees. It was decide that this information is wrong because of the extra employees, and that this will be corrected.

Aside from this issue, page 7 showed that this account has made progress since 2008. It was also mentioned that once the extra employees are taken off of this account, it will also increase making for even better results. Rebecca also asked if these employees knew that they were on this by mistake. Linda assured that they did not know and that she would have it fixed before they became aware of it.

Spencer asked about the number of employees that are currently receiving benefits, because it seemed like that number was low. Linda talked about how some employees take the lump sum option which is why there are only 13 that are receiving monthly payments. However, the report also showed that there are 25 employees that are waiting for benefits when they are eligible.

Linda also passed out a list of the number of employees that could be eligible for retirement in the next 10 years. It was seen that if all those employees retired today and took payments, the payment needed would be over one million. The list showed how many were eligible prior to the year 2013 and after 2014. However, some will choose to take a monthly payment and others will prefer the lump payment. Linda also mentioned that these figures are estimates, and that it takes all employees at the age of 62 collecting

benefits. It was also mentioned that with the current healthcare situation, some employees are willing to wait until the age of 65 to retire and they can receive Medicare.

Spencer commented that he has seen issues with frozen plans with increasing closing costs. He mentioned he had seen money going out, but no money coming in since it is frozen. The group discussed that the City Council looked into this and was aware of the possibility before they decided to close it.

The group also discussed the plan for new employees and the extra 3% that the City has promised to match to employees. Linda reported that there are not a lot of employees that are taking advantage of this.

The group also mentioned that Jim Salisbury wanted to come to the meeting to discuss something but was unable to make today's meeting. The idea that he wanted to bring to the table was about employees being able to choose how they wanted their money invested. However, Chris and Beverly stated that this was not a cost effective situation. Firstly, they do not do this type of record keeping for smaller accounts, and also that the costs will certainly outweigh the results for this type of situation. It was stated that they had talked about employees taking responsibility for the costs. Chris and Beverly still suggested this option not be taken. However, the group agreed that he still has the ability to come to the next meeting for more information on this.

### **MEETING AJOURNED**

With no further business, the meeting was adjourned at 11:35 AM.